

## **INTERNATIONALIZATION DECISION IN PT. SUNPACK INDONESIA: THE CHALLENGE OF SELECTING INTERNATIONAL MARKET AND MARKET-ENTRY MODES**

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### **ABSTRACT**

*A new global economy now is emerging to confront business enterprises with extraordinary threats to their survival, coupled with unprecedented opportunities for growth and profits. In this new global economy, no market is forever safe from foreign competition. Even though companies stay at home country, sooner or later they learn from hard experience that there are no domestic markets, only global markets, and companies should plan strategically for growing and survive in a world of global competition through geographic expansion (internationalization).*

*This study focuses on how a company has made internationalization decision. In order to gain a better understanding of the subject, research questions concerning the motives of internationalization, international market and market entry mode selections were formulated.*

*Qualitative research approach using a single-case study was conducted, and the research site was PT. Sunpack Indonesia a packaging machine manufacturer located in Sidoarjo. The form of the case study use is explanatory research, builds on previous knowledge and theories in order to answer the research questions.*

*Findings show that PT. Sunpack internationalization decision motivated by proactive and reactive motivations, and undertaking sequential steps of screening process in target market selection with direct export and contract manufacturing as the entry mode. Furthermore, a revision of theoretical proposition also presented.*

*Keywords: internationalization, international market, case study, explanatory*

### **1. RESEARCH BACKGROUND**

A new global economy now is emerging to confront business enterprises with extraordinary threats to their survival, coupled with unprecedented opportunities for growth and profits. Accelerating rates of technological change, interacting with accelerating globalization, are causing a migration of traditional industries from the industrial countries of Europe, Japan, and United States to the developing countries

Asia, Latin America, and Eastern Europe. Simultaneously, the industrial countries are undergoing a painful reallocation of resources from traditional capital and labor intensive to new technology and skill intensive industries. These massive resource shifts are creating a new global economy with new competitors and new markets (Root, 1994, 84). In this new global economy, no market is, forever, safe from foreign competition. In global economy, not that all companies should go international, but rather than all companies should plan for growing and survive in a world of global competition. Many companies will come to understand, that they can no longer attain their strategic objectives by remaining at home if they fail to sustain their presence in foreign markets (Root, 1994, 84).

Company's presence in foreign market requires company to create value through configuration and coordination of its multi-market activities. Thus, for a company to create value -to justify its multi-market activities- it must be able, in some way, to contribute to the competitive advantage of its markets through reconfiguring industry structure and shaping new competitive strategies (Collis and Montgomery, 2005, 93). Configuration and coordination of multi-market activities involves exploitation of scale and scope economies in an industry. Exploitation of scale and scope can be represented in vertical integration, product market, and geography (Collis and Montgomery, 2005, 94). Company must make number of strategic decisions in the context of expanding geographically through foreign operation (internationalization).

Decision for internationalization has five stages: (1) Deciding whether to go international or not, (2) Deciding which markets to enter, (3) Deciding how to enter the market, (4) Deciding on global marketing programs, and (5) Deciding on global marketing organizations (Kotler, 2003, 112). The selection of international market and foreign market entry mode is an important decision which the entire firm's decision makers have to thorough think about. Particularly, when selecting entry mode a wide range of factors must be taken into consideration before making the final decision (Young, et al., 1989, 98). Furthermore, if a company in the initial stage of its internationalization makes a bad selection of international market and its entry modes, it can be a threat in the future business activities (Holensen, 1998, 75).

Hollenstein (2005, 36) explains that the internationalization process particularly for small and medium sizes enterprise has limitation of resources in form of finance, information and management capacity. Compare to multinational cooperation, small and medium size enterprises also have to face external barriers, such as, laws and regulations since they do not have the power to negotiate and influence the government. So it is much harder for them to start the internationalizing process, which means they need to be very careful about the international market selection and choice of entry modes. Exporting is the most popular entry mode for enterprises become international (Root, 1994, 88). Exporting requires minimum resources but allowing high flexibility, and it is also offers substantial financial, marketing, technological, and other benefits to the enterprise.

This research was conducted in PT. Sunpack, a growing Indonesian based medium enterprise, which its business is in industrial machinery. PT. Sunpack is one of the Indonesian domestic companies, particularly in packaging and food processing machinery, and it has been operating in foreign market since 2001 ranging from Asia, Europe and Middle East. PT. Sunpack still has strong urge to expand internationally (by means of export and other entry mode option suitable). However, only the first three stage of internationalization decision based in Kotler (2003, 113) framework will be studied. The rest internationalization decision stages, such as, designing the marketing program and setting international marketing organization will not be presented in this research.

Based on the above background, therefore, the focuses of this research are on the following research questions: 1. Why did PT. Sunpack decide to go international business?; 2. How PT. Sunpack selects its foreign markets?; 3. How PT. Sunpack decides to enter the foreign market?

## **2. CORPORATE STRATEGY**

Corporate strategy is the way a company creates value through the configuration and coordination of its multi-market activities (Collis and Montgomery, 2005, 99). Three important aspects included in this definition: the emphasis on value creation as the ultimate purpose of corporate strategy, the focus on the multi-market scope of corporation (configuration), including its product, geographic, and vertical boundaries, and the emphasis on how firm manages the activities and businesses that lie within the corporate hierarchy (coordination).

In a condition of market equilibrium, a company with corporate advantage has resource barriers lock in competitive positions and the supportive condition of stable external environment. However, the rapid change of global economy has change the nature of competition. Such transformation disturbs market and industry equilibrium, creates the need for new resource, and provides opportunities for competitors to craft new strategies that are better suited to the changing global competition. Therefore, companies at competitive disadvantages will be striving to dislodge companies with competitive advantage, and often involve the exploitation of scale and scope economies in an industry as a way to reconfiguring industry structure and shaping new competitive strategies.

## **3. INTERNATIONALIZATION DECISION**

The internationalization process illustrates how a company progressively becomes a global actor on the international market through entering new geographies (Czinkota and Ronkainen, 1995, 212). A key factor determining why firms go international is the type and quality of management. Some researchers have shown that dynamic management

is important when firms take their first international steps. Over long term, management commitment and management's perceptions and attitudes are also good predictors of export success. Moreover, in international market entry motivations consist of a variety of factors both pushing and pulling firms along the international path. Major motivations to internationalize are differentiated into proactive and reactive motivations (Czinkota and Ronkainen 1995, 212). Proactive motivations represent stimuli to attempt strategic change while reactive motivations influence firms that are responsive to environmental changes and adjust to them by their activities over time.

#### **4. FOREIGN MARKET SELECTION**

Assessment of market opportunities is important aspect of internationalization agenda. Every time a company decides to expand into foreign markets, it must systematically evaluate possible market to identify the country or group of countries with the greatest opportunities. Root (1995, 89) stated that there are two ways to select foreign/international market (sales approach and entry strategy approach). Firstly, in Sales Approach companies use no systematical selection process or method, and choose their foreign target market based on trade leads, personal selling or left the marketing to middlemen in order to make immediate sales. Secondly is Entry Strategy Approach where companies optimize their international market selection based on analysis of market and sales potential to select the best opportunity foreign markets for company international operations.

#### **5. FOREIGN ENTRY MODES**

Choice of entry modes is made to facilitate the firm's international strategy for a specific foreign market entry. Entry mode is important because it determines the degree of control a company has over its marketing mix in the foreign target market (Albaum, Strandskov, and Duer, 1998, 15). A company may use more than one entry mode at the same time which means that most likely different entry modes within the same product line since each product requires a different entry mode. Hollensen (1998, 78) states that if a company in the initial stage of its internationalization makes a poor selection of entry modes, it can become a threat for its future market entries and expansions. Moreover entry strategies helps to set the objectives, goals, resources and policies in order to guide the company's international business activities to reach sustainable growth on the international market. However there is no entry mode that can be seen as the best choice, the selection of entry mode is different from one company to another and is influenced by a number of factors, both internal and external to the company (Root, 1994, 89).

Kotler (2003, 113) pointed out that the classification of market entry modes is not easy. There are many relevant criteria to take into consideration such as the level of commitment, perceived risk, desire of control, and profit potential. On the other hand,

the firm should deal directly with the buyer, as well as if the transaction involves exporting goods and services, knowledge and expertise or investment. Type of entry market mode are: indirect export, direct export, licencing, joint ventures, and direct investment.

Indirect export is seen as a chain that links together the exporting enterprise with a domestic middleman, then a middleman in the target country, and finally the end-customer (Hennessey, 1995, 19). The intermediaries pose extensive knowledge about the local market as well as the ability to provide good marketing services. Indirect exporting is the most common way for an enterprise to begin exportation. Consequently, most of the world trade is handled this way since indirect export is seen as an easy way to introduce products into new foreign markets (Czinkota and Ronkainen, 1995, 213). By using indirect channels, an enterprise can start exporting without large investments, with low startup costs, and few risks. Accordingly, if the present and projected size of the target country market is small, indirect exporting is favored. This makes indirect exporting less viable as a way to win and hold a favorable position in a foreign market.

Hennessey (1995, 20) stated when an organization produces the product at home and then sells it to the foreign customer without the use of an intermediary, then, direct exporting is conducted. The seller has to take responsibility for attracting customers, negotiations, processing of orders and arranging shipment and after sales service. The costs can be high, especially for a small company, but the seller maintains complete control by selling through its own export department and sales force. Direct export may be conducted in three ways: (1) directly to the final customer, (2) with the help of a representative or (3) through the exporting enterprise's own establishment in the foreign market (Hedman, 1993, 15).

When an organization uses licensing as a mode of entry they grant a licensee the right to manufacture a product, use patents, use particular processes or exploit trademarks in a specified market in return for a royalty payment (Hennessey, 1995, 22). By using the licensing as entry mode, a firm gains market presence without equity investment. The foreign company, or licensee, gains the rights to commercially exploit patent or trademark either on exclusive or an unrestricted basis. The licensor does, however, need to be sure that the licensee can handle the necessary production and marketing. Licensing is often viewed favorably by foreign government, as it brings in new technology and helps in the training and skill of the local workforce. Companies such as Hyatt and Marriot sell *management contracts* to owners of foreign hotels to manage this business for a fee. Another variation is *contract manufacturing*, in which the firm hires local manufacturers to produce the product.

Foreign investors may join with local investor to create a joint venture company in which they share ownership and control. A joint venture may be necessary or desirable for economic or political reason. The foreign firm might lack of financial, physical, or managerial resource to undertake the venture alone, and by bringing in a partner the company can share resources and risk for the new venture.

The ultimate form of foreign involvement is direct ownership of foreign based assembly or manufacturing facilities. The foreign company may buy part or full interest in a local company, or build its own facilities (Kotler, 2003, 115). The establishment of foreign direct investment involves assembling or manufacturing the product in foreign markets. Like sales subsidiaries, foreign direct investment can be set up from scratch, or be developed from an acquisition. Since operations create employment and wealth, governments in foreign countries are often keen to attract these kinds of investments.

Each market entry alternatives can be used as a strategic tool for achieving a company's objectives in a particular market. However, each tool is not equally appropriate for all situations. The choice of market entry mode depends on company, environmental, and market circumstances at a particular point in time (Toyne and Walters, 1989, 12).

## **6. RESEARCH METHOD**

The qualitative approach is used in this research, particularly case study methodology. The purpose of this study is to gain an understanding of how PT. Sunpack selects and enters foreign markets particularly with export as foreign market entry mode. In this field of research there is a relatively lot of theory available. In order to develop an understanding of PT. Sunpack's selection of its international target market and foreign entry mode, this study will be explanatory.

Two types of data used are primary and secondary data. Primary data is the most type of data that will be presented, and is resulted from field research (interview and observation). The role of secondary data (archival records) is merely as supporting data. Case study research typically combines multiple data collection methods in order to produce a wider scope of coverage and may result in a full picture of the phenomena (Pare, 2001, 246). In-depth interview, observation, and collecting company's documents will be the main process of collecting data execution. Documents can be letters, memoranda, agendas, minute of meeting, administrative documents, newspaper articles, or any document that is relevant to the investigation. Direct observation is also carried out in the field visit. Chosen informants should qualify for meeting the need of correct answers. Character of the right informant for this research is the ones who are in charge for executing export and foreign market management activities in PT. Sunpack. Unfortunately, the only person who runs the foreign market strategy in PT. Sunpack is Mr Purnawi Sumantri, the International Marketing Manager, and then he will be the single respondent in this research. He is responsible for the whole foreign operation in the company, including building network with potential and relevance parties, and also acquiring export middlemen.

Depth interview method is chosen due to its ability in uncovering underlying motivations, beliefs, attitudes, and feelings on a topic through probing approach. The critical success of this interview lies in the researcher's role to (1) avoid appearing superior and put the

respondent at ease; (2) be detached and objective, yet personable; (3) ask questions in an informative manner; (4) not accept brief “yes” or “no” answers; and (5) probe the respondent (Malhotra, 2004, 25).

The analysis technique refers to general and specific analytic strategy. Yin (2003, 17) suggests that every case investigation should have a general analytic strategy. He presents three possible analytic strategies: relying on theoretical propositions, thinking about rival explanations, and developing a case description. To deepen our analysis, we explore some specific analytic techniques, such as, pattern matching, and explanation building. Based on the framework of this research, relying on theoretical propositions will be the general analytic strategy.

## **7. OVERVIEW OF COMPANY PROFILE**

PT. Sunpack Indonesia is a packaging machine manufacturing company located in Sidoarjo, East Java. It has is “to be the international player in packaging machinery”, while its mission is “to be a competitive market oriented company with focused on valuable product and delightful after sale service”. Its objectives are: (1) Gain a strong foothold in international packaging machine market, (2) Develop long term relationship and mutual growth with its international supplier and agent, (3) Strive to be international player in its industry.

PT. Sunpack was established in 1997 with originally focused on domestic market, especially on fulfilling snack food industry requirement for packaging machine. The monetary crisis happened around 1998 had forced the company to questioning domestic-based target market, and shifting company market scope to international market. The company internationalization began in 2001 with the market coverage on the neighboring south-east Asia countries. The first countries it entered were Malaysia, Thailand, and Philippine. The response of this entry move was remarkable; the Indonesian-made machine had offered a distinctive value over the competitors (regarding its value pricing and high-technology). Japanese-Korean-European technology adoption had made PT. Sunpack’s machines known to be reliable, durable, and highly efficient. Other qualification that exceeds competitors is that the machines are easily customized according to users’ requirement.

Basically, PT. Sunpack main operation activity is to manufacture packaging machinery and making sales activity of the machinery products by means directly to end customer (clients who act as product user) or indirectly through Sunpack’s business partners (Sunpack’s foreign agents who responsible for Sunpack’s foreign sales activity and partnering firms who has a production or marketing partnership with Sunpack foreign operations). Sunpack’s has production capability of 15 units machines per months, and offers four type of packaging machine products according to the machines specification and purpose.

## **8. SWOT ANALYSIS**

Sunpack describes on how to synchronize company's strengths and weaknesses with opportunities and threats faced by company can be seen in company's SWOT analysis:

### **Strengths:**

1. Presence in international market: South East Asia, East Asia, Europe, Africa, South America, and Middle East
2. Products are easy to customized as to user requirements
3. After sales service & product support
4. Competitive product price due to company's cost advantage in manufacturing
5. Experienced engineer, management and sales team in packaging machinery business
6. Low staff and management turnover
7. Management entrepreneurial thrust
8. High quality of international dealer network
9. High customer switching cost

### **Weaknesses:**

1. No patent protection for some products
2. Aging production equipment
3. Moderate financing capability by business owner
4. Limited breadth of product lines
5. Moderate advertising
6. Shortage in R&D and Engineer staff

### **Opportunities:**

1. Growth of food processing industry in Middle East, Africa, South America and east European market.
2. Good market acceptance of new technology (Servo Motor Technology), while some of Sunpack's machines already implement this prototype technology
3. Growth in Small and Medium company in food processing industry that suitable for Sunpack's machines capacity specification
4. Gaining trust from European manufacturer for co-production and production outsourcing, increasing the like hood of technology transfer
5. Sunpack's product image gain interest from several international trading agencies to become Sunpack's sales agent.
6. Increasing frequency of international packaging machinery exhibition



**Threats:**

1. Rapid development of food processing and machinery technology
2. New environmental and consumer protection standards on packaging products
3. Growth of packaging machinery business bring more competitor into the business, especially from emerging Asian countries like Taiwan and China that willing to offer products with extremely low price
4. Intensive global player expansion internationally with related diversification business (manufacturing both packaging and food processing machinery)
5. Forward integration of spare part manufacturer
6. Backward integration of major food processing company

Sunpack's market internationalization phase by international market region can be represented as follows: Year 2001: Asia; 2002: Asia and Middle East; 2003-2005: Africa and America (north and south); and 2006-2009: Europe.

## **9. RESEARCH FINDINGS**

### **Result**

Some findings were consistent with the theories proposed earlier, while some other findings can be considered as the new aspects. The following are the results in detail:

Research question 1: Sunpack's motives of internationalization

According to Sunpack's International Marketing manager Mr. Purnawi Sumantri, the major motivations of Sunpack's internationalization decision are:

1. *Higher profit expectations.* Like any other exporters, profit was the dominant reason for company to go international business. Sunpack's management believed that if they could market their product abroad, they would earn a substantial profit advantage than merely domestic operations. He mentioned:

“We expected the profit margin would be higher with the increasing sales turnover than solely domestic operations. This range of profit we calculated would be significant enough to cover all the trading expenses incurred during the trading process. At the beginning of our international operation, we expected the range of profit margin would be around 10% up to 15% higher than domestic operation. That range of profit, we belief was high enough for company with our capacity and would support the company's growth in the long run, moreover, profit is our main consideration of going international and eventually the profit margin variance in the last six years shows higher percentage than we had expected, with average of 18.63%.”

**Table 1.**  
Profit Margin Analysis (in %)

Year	Domestic Operation	International Operation	Variance (Int – Dom)
2000	13.15%	26.33%	13.18%
2001	20.51%	39.27%	18.76%
2002	12.32%	31.59%	19.27%
2003	12.73%	37.36%	24.63%
2004	15.89%	32.17%	16.28%
2005	10.64%	29.07%	18.43%
2006	9.94%	29.79%	19.85%

Source: Sunpack's profit and loss statement

Within company's geographical pricing strategy, Sunpack applied different price between domestic and international market due to the industry competitive environment in domestic and international market. It shows in the following table.

**Table 2.**  
Domestic and International Price (in US \$)

Year	Domestic Price	International Price
SH 28	10,500	12,250
SH 38	13,000	15,000
SH 38C	14,000	16,250
SH 38B	17,750	20,500
SH 68	21,250	24,500
SH 78 H	15,200	17,500
SH 78C standard	17,250	20,000
SH 78C Jumbo	19,500	22,500
SH 78C Super Jumbo	21,200	24,500

Source: Sunpack's documents (processed by author)

2. *Sunpack's product competence.* Sunpack's machines known as an "easy to customized" machine and offer in price lower than its competitor with similar technology. These become a strong background for the management to start internationalizing. As mentioned by Mr. Purnawi, research's informan:

"at the moment we think on internationalizing, we believed we could compete, we had product with good reputation and valuable price...Our product is easy to customize, many user do not need the machine's full features, so we don't install un-needed features, and we optimize the most required function, that's why we could save a lot on cost and keep our price affordable, they don't buy what they don't need. That's I believed was our product's competence".

3. *Management enthusiasm and optimism.* Decision maker's enthusiasm, perception on the foreign market, their expectations, and belief on company's ability to compete, play an important role on the Sunpack's internationalization process. Sunpack's managerial urge for internationalization was expressed by their enthusiasm toward international activities and their obsession to become international players. This might due to the former experience of the Sunpack's director and international marketing manager in international trading. As mentioned by Mr. Purnawi: "When we're considering the foreign market opportunities and our chances to enter international market, our previous personal experience in such trades was very helpful in providing us positive vision and expectations on the internationalization..."
4. *Incentives.* As a motivating role, tax benefit should allow firm to offer its products at a lower cost in foreign market. For export activities, the free-tariff policy had also motivating firm to expand internationally. Mr. Purnawi stated that this statement is true for them in terms of free-tariff incentives. The direct effect of the incentives is the ability for company to gain more margin and ability to compete in lower price. Although it beneficial, in general, other companies also experience the same incentives as well, and the incentives itself was not playing an important role as motivating effect.
5. *Expectation to gain economies of scale due to higher production output.* Cost reduction by the increasing economies of scale also affected Sunpack's decision on internationalization. As Mr. Purnawi mentioned: "Previously on solely domestic operations, we had run productions output of 6 to 8 machines per month. After evaluating the list of potential foreign enquiries, we were hoping that the increasing production should lower the cost up to 10% by producing 12 to 15 machines".
6. *Opportunities of foreign market.* Sunpack's management enthusiasm on internationalization, and their belief of company's products competence had shape the way the company view foreign opportunities and build their confidence to enter foreign market. Mr Purnawi said:

"Our optimism of company's capability to compete in international market, had shape the way we see the opportunities in front of us. We started to be more internationally oriented; we focused our self on the latest news and technology breakthrough of international packaging market; we started to closely observe our international and regional competitor and also food processing industries growth; thus we were be able to expand our view of the foreign market opportunities ahead. We found that, not only are new markets appearing, but many of them are growing at a faster rate than our home market. The more we find the facts that we have the ability to compete in this potential new market, the more motivations we had to go internationally".
7. *Global players' threat.* Along with their advance technology and global image, global packaging machines manufacturer started to threat the domestic company.

Sunpack's management believed that their home market is fragile, and it was undeniable that this also could threaten their survivability. Mr. Purnawi mentions:

"Domestic markets were saturated at the moment, and the global players presences become a bigger problem in this kind of situations. At the time, we thought that if we were able to play in international level, we could at least try to match these global players standard of quality in competition. We knew that this internationalization could benefit us in some way, especially to increase our experience to fulfill foreign demands. So, I would rather call this global threat, was a blessing in disguised for the sake of our future..."

8. *Small and saturated domestic market.* Indonesian market had not been recovered from the crisis in 1998. "The actual size was not actually small" said the informant, but economic crisis had made much food and beverages processing company limited their production and plan to expand, due to the decrease in consumer demand. In order to maintain its sales growth in this saturated market, Sunpack forced to look beyond geographic border and expand internationally to the more opportunistic country.
9. *Excess capacity.* Sunpack had capacity to made 20 machine / month. Domestic operations could only utilize max. 40% of the production capacity. Thus, this excess capacity had made a reasonable motivation to expand internationally. Management believed with the vast foreign market opportunity, they could utilize the excess capacity and turned this excess (another 60%) into profitable sales.
10. *Unsolicited foreign orders.* Sunpack had information of unsolicited foreign enquiries from other domestic packaging machine manufacturers. As Mr. Purnawi mentioned:  
"We have good relationship with other domestic packaging company. At the beginning of our internationalization initiatives, these domestic competitors passed us some foreign enquiries they cannot fulfill. Some of these enquiries are very suitable for our products. In few management meetings afterwards, we thought about the opportunities to operate internationally. After the management had the internationalization approved, we simply just follow the trade leads and within few months we had already got our self twenty enquiries from foreign customers".

#### Research Question 2: Sunpack international market selection

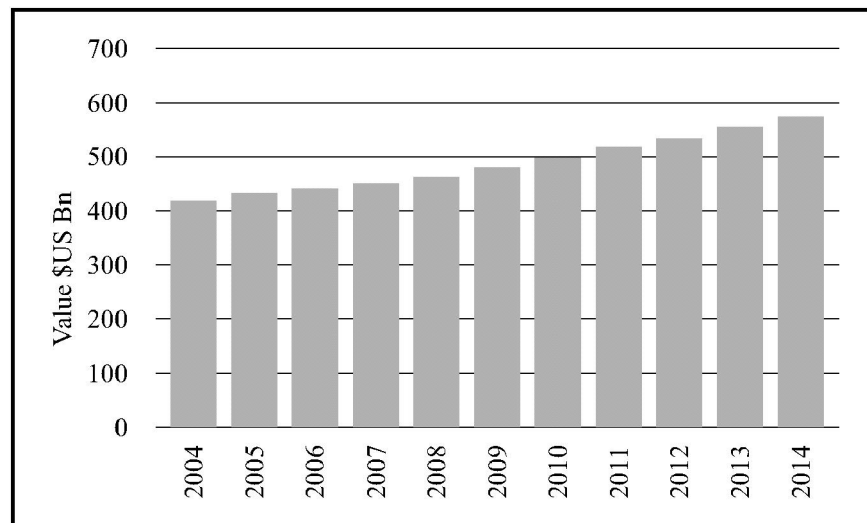
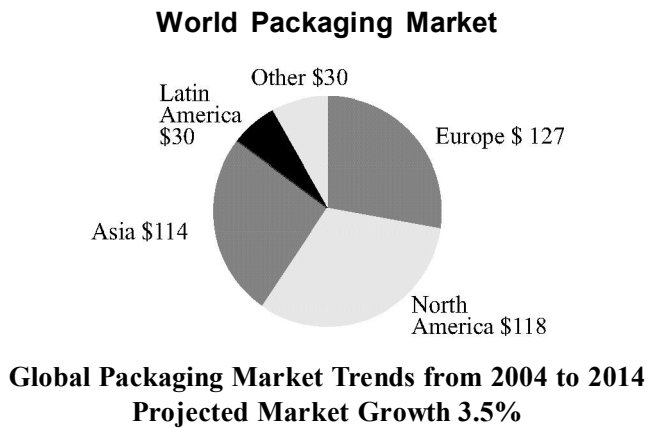
According to Mr. Purnawi Sumantri, in order to select their international market, the company goes through sequential steps on international market selection process.

1. Development of general customer profile.

Sunpack's customer profile is product manufacturer who use packaging material as their product's packaging (packaging market). This identification leads Sunpack to the next screening activities.

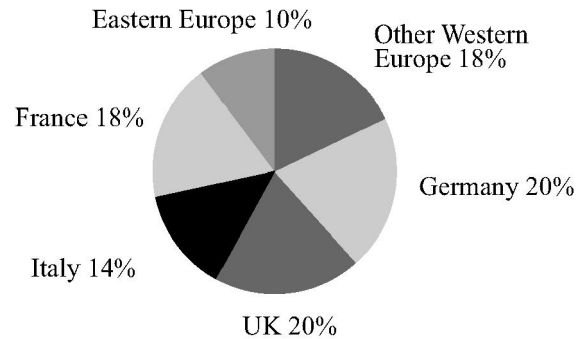
2. Packaging Market size estimation.

Sunpack rely their market size estimation on published packaging market information in terms of market size and market trends. Mr. Purnawi said: “In identifying potential country, we rely most on the availability of published information about market size and trends. Furthermore, we will breakdown the information on global share into market share per region and countries in order to identify the prospective countries/ market to enter”.



**Figure 1.**  
World Market Size and Trends  
Source: Sunpack's documents

### Regional Breakdown of European Packaging Market



### European Packaging Market Trends from 1998-2008

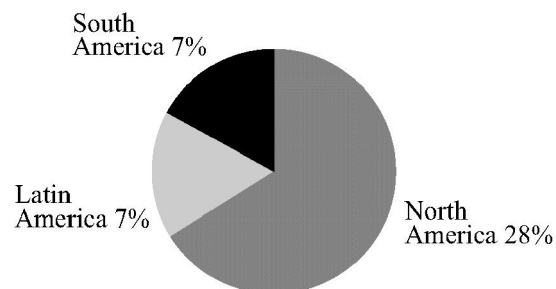
<i>Projected Market Growth (1.2%)/Year</i>	<i>Worth In US\$ Billion</i>
1998	124
2000	125
2002	126
2004	127
2006	128
2008	130

**Figure 2.**

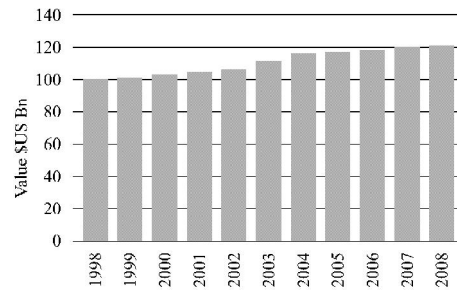
European Market Size and Trends

*Source:* Sunpack's documents

### Regional Breakdown of American Packaging Market

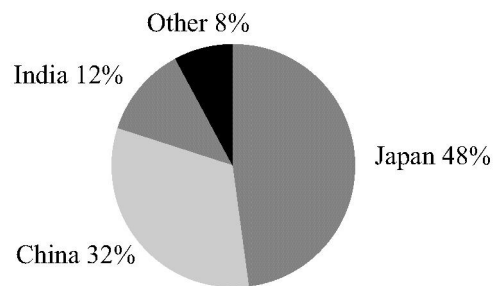


**North American Packaging Market Trends from 1998 to 2008**  
**Projected Growth Rate 1.04%**

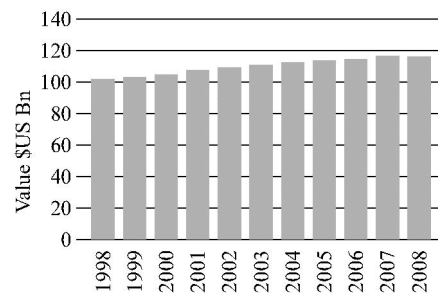


**Figure 3.**  
 North American Market Size and Trends  
*Source: Sunpack's documents*

**Regional Breakdown of Asian Packaging Market**



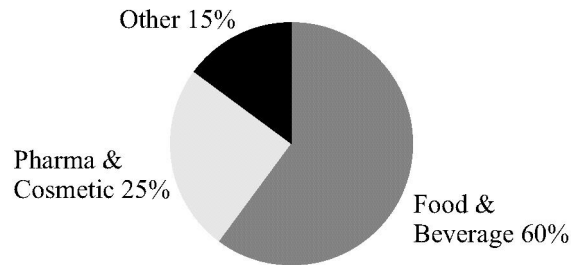
**Asian Packaging Market, Trends 2004-2008**  
**Projected Market Growth (1.5%)**



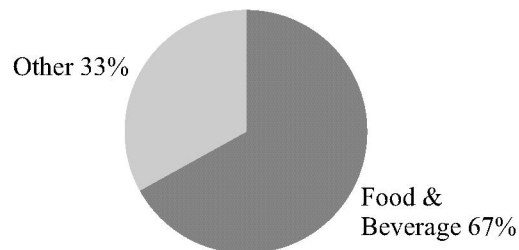
**Figure 4**  
 Asian Market Size and Trends  
*Source: Sunpack's documents*

3. Identification of the potential user segment in prospective region.

The next activity is to identify user segment in each prospective region. Sunpak's machines are designed as food and beverage packaging machine, therefore Sunpack would focus their future operation on the region/country which had promising prospective user segments in food and beverage category which match with company's product specification.

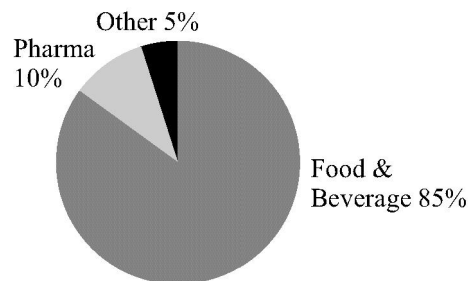


**Figure 5**  
European user segment



*Food & Beverage are the major user segment sharing approximately 67% and are worth of \$79 Billions of total \$118 Billion American Market*

**Figure 6:** American user segment  
*Source: Sunpack's documents*

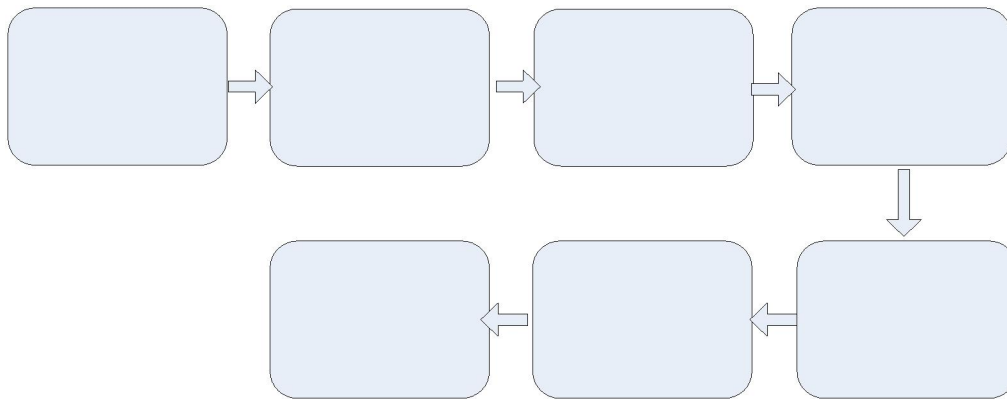


**Figure 7:** Asian user segment  
*Source: Sunpack's documents*



4. Appraisal on the cost to serve the market  
After Sunpack choose their prospective region, countries and user segment, the follow up activity is to conduct cost analysis of the future operation. Since the cost of export is the simplest and quickest way to estimate, the cost appraisal often referred from export entry cost analysis (this would includes: import duties, border taxes, industrial standards, transportation and other logistical costs to move the product from home country to the foreign country). Somehow, if the cost calculation is feasible, the company will go through the next step of the process.
5. Analyzing competitive environment  
Sunpack's next activity is to evaluate the competitive environment in specific target country. There are several issues addressed in the evaluation, such as:
  - a. Competitive products sold in the country
  - b. Competitive products market share
  - c. Competitive products comparison with Sunpack's in reputation, features and other attributes
  - d. Support facilities had by the competitors in the country (production, warehousing, sales branches)
  - e. Problems faced by competitors
  - f. Competitors relationship with local government
  - g. Distribution channel used by competitors
  - h. Competitors' price compare to Sunpack's
  - i. The nature of credit terms, commissions, and other compensation extended by competitors to their channel members
  - j. Promotion programs used by competitors
  - k. Competitors' after sales service
  - l. Competitors' local importers
  - m. The nature of credit, pricing, and other terms extended by competitors to local importers
  - n. The presence of local manufacturers and their advantages over importing competitors
6. Analysis of potential agents and distributors.  
Agents and distributors are important part in Sunpack's future operation. Thus, the availability of intermediaries to extend Sunpack's services to customers will be Sunpack's further evaluation. The information of intermediaries' availability could be found from trade associations, chambers of commerce and government trade departments.

Sunpack's sequential activities of international market selection can be summarized in Figure 8:



**Figure 8:** Sunpack's international market selection

Source: Author's construction based on Root (1995, 113) and informant explanation

Sunpack divided the international market into two groups (key/ primary market and secondary market). Countries listed in primary market are countries which offer the best opportunities for the long-term strategic development and will get most attention for company's marketing agenda. Countries listed in secondary market are backup markets if any means Sunpack have failed to establish strong presence in primary market and treats as secondary target of marketing agenda and resource allocation.

### Research Question 3: Sunpack's foreign market entry

The third step of Sunpack's internationalization is to enter the prospective countries in company's market priority list. In order to gain recognition in their target market and to establish further operations, company begins their entry operations by participating in international exhibition held in the priority countries.

International exhibition functions as trading and information sharing event for manufacturers, traders and prospective buyers. Regular international exhibitions where Sunpack participates can be shown in the appendix. The participation in international exhibition would be the beginning of Sunpack's international operations. Sales enquiries resulted from the exhibition, will be followed up by market entry activities to target markets.

### Direct Export

Most of Sunpack international operations start in the means of direct exporting. According to the informant, direct exporting offers several advantages to them, such as: (1) Access to local market experience and contacts to potential customers; (2) Market knowledge acquired; (3) Local selling support and after sales available; (4) company could have full control over the foreign marketing plan (distribution, pricing, promotion, product after sales service services); (5) company could establish stronger relationship with their

prospective buyers; (6) more and quicker information feedback from the target market, which can improve the marketing effort such as: closer product adaptation or more responsive pricing; and (7) better protection of goodwill, trademark, and other intangible property.

Sunpack conducted direct export in two ways:

**(1) Directly to the final customer.** Sunpack will undertake the entire exporting task. This will involve building up overseas contacts, undertaking marketing research, handling documentation and transportation, and designing marketing mix strategies.

**(2) With the help of sales representatives/ independent intermediaries (sales agents and sales distributors).**

*a. Agents.*

The form of Sunpack's agents is exclusive (agent has exclusive rights to specified sales territories); semi-exclusive (agent handles the company's products along with other non-competing products from other companies); and non-exclusive (agent handles variety of products, including some that may compete with Sunpack's products).

Sunpack's agents represent the company and sells to end customers or local trading companies. Agents obtain commission (paid by Sunpack) on a pre-agreed basis. Some Sunpack's agents furnish financial and market information and a few also guarantee the payment of customers' accounts. The commission that agents receive vary substantially, depending upon services performed, the market's size and importance, and competition among manufacturers and other agents.

*b. Distributors*

Sunpack's distributors are the exclusive representatives of the company and are generally the sole importers of Sunpack's products in their markets. As independent merchants, distributors buy their own accounts and have substantial freedom to choose their own customers and to set the condition of sale. For each country, Sunpack deal with one distributor, take one credit risk, and ship to one destination. In many countries, Sunpack's distributors own and operate warehouses and repair and service facilities. Once Sunpack's distributors have negotiated with the company on price and service, their efforts focus on working their own sub-operations and dealers (if any). Distributors had specific sales territory and generally represent Sunpack in all aspects of sales and servicing in that area and paid according to the difference between the buying and selling price. Distributors are often appointed when after sales service is required, as they are more likely than agents to possess the necessary resources.

*c. The selection of suitable intermediary.*

In selecting particular intermediary, Sunpack will examine each candidate firm's knowledge of the products and local markets, experience and expertise, required

margins, credit ratings, customer care facilities and ability to promote the exporter's products in an effective and attractive manner. Specific desirable characteristics Sunpack's examine such as: Trading areas covered, Product lines handles, Size of firm, Experience with manufacturer's similar product line, Sales organization and quality of sales force, Physical facilities, Willingness to carry inventories, After-sales servicing ability, Reputation with suppliers, customers and banks, Record of sales performance, Cost of operations, Financial strength, Relationship with local government, and Willingness to cooperate with the company. When an intermediary is selected, Sunpack will negotiate contract agreement as the fundamental basis of relationship between Sunpack and the intermediary.

### **Contract manufacturing**

Sunpack international operations also start in the means of contract manufacturing. Contract manufacturing is a cross between licensing and investment entry. In contract manufacturing, Sunpack sources products from an independent packaging machine manufacturer in a foreign target country and subsequently markets the products in the target country or elsewhere.

Sunpack's contract manufacturing can bring several advantages to the company: (1) it requires a comparatively small commitment of financial and management resources; (2) It allows for quick entry into the target country; (3) Avoids local ownership problem; and (3) permits Sunpack to exercise control over marketing and after sales service. The disadvantages of contract manufacturing such as: (1) Sunpack runs the risk of creating a future competitor; (2) it may be difficult to find a suitable local manufacturer; and (3) it required substantial technical assistance to bring it up to the desired quality.

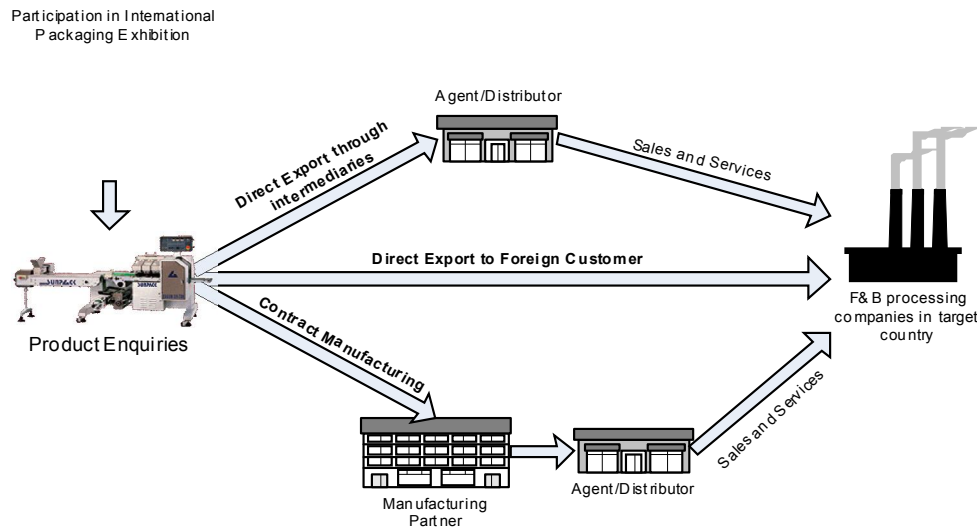
According to the informant, contract manufacturing is especially attractive when the target market is too small to justify investment entry (assuming it is possible) and export entry is blocked by restrictions or is simply too costly.

**Table 3:** Sunpack's contract manufacturing operation

<b>Contract manufacturing partner</b>	<b>Country location</b>	<b>Target market</b>
A.M.P Rose (SH-68)	England	Europe
A.M.P Rose (horizontal and vertical packaging machine SH-28, SH-38)	India	India
Technisch Handelsbureau Dankloff (horizontal packaging machine SH-78)	Holland	Europe
Great Khan Industrial Co.Ltd (vertical packaging machine SH-28, SH-38, SH-78)	Taiwan	Taiwan and China
Behta International Ltd.(candy packaging machine SH-68)	UEA	Middle East

*Source:* Informant explanation

In summary, Sunpack's foreign market entry can be described in following:



**Figure 9:** Sunpack's foreign market entry

Source: Author's construction based on research findings

### Sunpack's approach of selecting foreign market entry mode

Sunpack's follow pragmatic rule when they consider their foreign market entry mode. As it mentions by the informant "We use specific entry mode for each of our foreign market. Ordinarily we initiate with a low risk entry mode, which is by exporting. We begin our search for an entry mode by assessing export prospects in the target country and we do not actually investigate all types of alternative entry modes. Only if export entry is not feasible or profitable for use, then we will continue to look for alternative entry mode that might be applicable and workable with the current situation, one of the alternatives we are frequently use is contract manufacturing. We are aware that this approach might not lead us to the most suitable entry mode to maximizing the opportunities. But in the other hand, we are constraint by the risk, cost and time to initiates entry operations. So, in our case of entry mode alternatives, we prefer the workable one than just the suitable".

To illustrate the internationalization decision in selecting international market and market entry mode, its adoption at PT.Sunpack Indonesia has been explained and analyzed. The analysis provides an explanation that Sunpack has adopted internationalization decision based on theoretical concept. Furthermore, the findings have shown that some criteria/elements have matched with propositions-while new elements were also found. Explanation building technique requires proposition revision in the end-if new findings were found. Enriched propositions are:

1. The firm decides to go international business due to proactive and reactive motivations.
  - a. Proactive motivations such as profit advantage, unique product/ competence, exclusive market information, managerial urge, tax benefit, economies of scale, and opportunities of foreign market.
  - b. Reactive motivations such as competitive pressure, overproduction, declining/ saturated domestic market, excess capacity, risk diversification, proximity to customers and ports, and unsolicited foreign orders.
2. The firm selects foreign target market by undertaking
  - a. Preliminary screening: Customer/user profile, Direct estimates of market size, and indirect estimates of market size through market size indicators.
  - b. Industry market potential estimation: top-down and bottom-up approach.
  - c. Company's sales potential estimation
    - i. The appraisal of entry condition
    - ii. Competitive audit of each high industry market potential country (comparisons between company's products and the competitors' products that satisfy the same function or need)
    - iii. Availability of distribution channel for the company's products
3. The firm might decide to enter foreign market in the form of indirect export, direct export, licensing, contract manufacturing, joint ventures, and direct investment following naïve, pragmatic or strategy rule (Root, 1994)

Further, undetected propositions in this research had investigated. The main reasons are:

- a. Although the management have strong urge to compete internationally, at the present Sunpack have relatively limited financial resources that constraints the company to use entry mode that call for large investment (joint ventures and foreign direct investment)
- b. Sunpack enjoyed low cost of production in Indonesia, especially in the upstream of value chain activities, hence it favors export mode and only on certain case they will undertaking alternative entry mode (if export no feasible)

## **CONCLUSIONS**

This research shows that PT. Sunpack Indonesia has adopted internationalization decision theory through executing three sequential elements of process: (1) deciding to go international business; (2) selecting international target market; and (3) selecting market entry mode.

## **RECOMMENDATIONS**

This research has generated conclusions which consist of some issues. Based on above issues and evaluations some managerial implications are presented:

1. Sunpack should analyze the competitive structure of the target markets. Country with oligopoly and monopolistic markets more favorable to enter via equity investment in production to enable Sunpack to compete against the power of dominant firms.
2. Sunpack industrial product's characteristic requires an array of pre- and after sales service makes it more difficult for the company to market the product by export only. Ordinarily the performance of product services demands proximity to customers, therefore Sunpack should also consider opening foreign branches/ subsidiary or local manufacturing facilities. If it is not feasible, Sunpack should consider to training their local agents and distributors as the company extension on giving after sales service or by directly serving under contract with the foreign customer.
3. Regarding customer requirements, many Sunpack machines require considerable adaptation, and it favor entry mode that bring Sunpack to close proximity with target market (branch/ subsidiary exporting) or into local production.
4. In the near future, Sunpack should plan to configuring and coordinating the company's value chain and it requires consideration of three steps:
  - a) By locating upstream activities in low cost countries, and downstream activities in high profitable market.
  - b) By keeping control through ownership of the value added activities in which it excels compared to the competitors (core competencies)
  - c) By contracting out activities that outside the companies can do better or at a lower cost. In this way the company allocates scarce resources to activities that provide the highest profit contribution.

#### **RESEARCH LIMITATION**

Despite the interesting findings and implications that emerge from this study, it is importance to recognize its limitations. The research limitations such as:

1. This research only examines three step of Kotler's internationalization decision theory, and not discussed the fourth and the fifth steps.
2. This research is single case and considered to be less robust and weaker than cross case, but the purpose on theoretical examination and the nature of the case as typical case was proposed to justify this research to be single case.
3. This research use single respondent, and tend to be subjective in manner. To overcome this problem, author kept maintaining the chain of evidence by triangulating the informant explanation with other documents and quantitative evident to support the information.

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